

State Board of Accountancy

John Schuyler, Chair State Board of Accountancy

Co-chairs Cassano and Jutila, Ranking Members Gerratana and Alexander, members of the Government Administration and Elections Committee. My name is John Schuyler. I'm the appointed chair of the State Board of Accountancy. As such, I and my fellow board members, both CPAs and public members, are volunteers taking time out from their livelihoods charged with protecting the public trust placed in the CPA profession which exercises an important independent attest function that is a critical piece in protecting the integrity of financial reporting and the integrity of our financial system.

I am testifying today in strong opposition to the proposed changes related to the Connecticut State Board of Accountancy in H.B. No. 5049 "An Act Implementing the Budget Recommendations of the Governor Concerning General Government." The Act transfers the function from the Office of the Secretary of the State, where it is working well, to the Department of Consumer Protection, without transferring the related staff, including the board's staff attorney for regulatory affairs who also doubles as the acting executive director.

I seek no special favors and no funds from general revenues. Those of us in the profession or who care about standards and public trust in the profession ask only that 1.) at least an adequate minimal percentage of the money collected as fees from the profession for the purpose of maintaining appropriate regulation actually be used for that purpose, and 2.) we stop what seems to be constant, repetitive, frivolous and uninformed organizational fiddling that has in the recent past caused so much damage to this regulatory function.

That destructive fiddling included a previous transfer to Consumer Protection, which ultimately resulted in the mass resignation of the board at the time, and an unacceptable regulatory backlog. A recently appointed board and a small, capable staff have only recently been rebuilt.

First, some facts,

Connecticut assesses by far the highest CPA license fee in the nation, which is almost 3 times that of the next highest state and over 6 times the national average. I mention this for context. My purpose today is not to complain about the amount, but to highlight that it is assessed under the assumption that it is collected to support a particular function. To my knowledge, we as a nation don't generally tax people solely for the basic right to pursue their livelihood. For that fee, the public, including Connecticut CPAs, expect and deserve a functioning regulatory body with staff possessing specific knowledge of this very technical profession. This Act would eliminate this knowledgeable staff.

In 2015, between license fees, firm permits, certificate fees and fines, the state collected almost \$2.9 million from a dedicated revenue source. However, we spend roughly 10% on its intended purpose, and \$155,000 less than that which was spent 5 years ago. It could certainly be argued that there is no reason we must spend every penny on the designated purpose. We should accomplish appropriate regulation as efficiently and cheaply as possible. But we should be embarrassed to totally eviscerate the effort and repetitively push a historically disastrous proposal. I know I'm embarrassed when I participate in National Association of State Boards of Accountancy events and experience the pity from those representing the other states. Connecticut currently has a national reputation as a state that does not care about enforcing professional standards.

This board and staff have consistently worked to economize. Roughly 90% of the money raised for this function is turned over to the general fund for other purposes. This stone contains no more blood.

The board does not just supervise licensure in a world of mobility and reciprocity – a total of approximately 9,000 licenses, certificates and firm permits, oversees the required continuing education, peer review, and ethics and independence, and performs valuable work conforming regulations to the intent of the statutes and providing input to the legislature on options proposed model regulatory changes at the national level, but after all the damage done by prior organizational fiddling, we are trying to catch up to the rest of the nation to establish a workable program of oversight of peer reviews.

Specialized knowledge in a very technical and changing profession, and established working relationships with other organizations, both federal and state, as well as resources such as the National Association of State Boards of Accountancy is required. This knowledge and these working relationships are developed over time through hard work and accumulated experience. This isn't just collecting fees and sending out certificates.

As noted above, the board has previously briefly been housed under consumer protection. Briefly.... because it didn't work. The department didn't have the specific skills and relationships in house for this regulatory function.

I can't understand why the go to position would be a previously demonstrated failure and that this old chestnut is dragged out every six months or so. Repeating a failed action and expecting different results is usually not considered a winning strategy.

Enforcement actions had been seriously delayed and backed up for several years due to previous turnover and organizational moves when the board was without a staff attorney for two years. The board has now almost caught up, reducing the docket from over 140 to just over 60 cases outstanding, thanks to a knowledgeable, competent, and hardworking staff, which has recently been reduced to 3 from 4 positions, as a result of the December 2015 special session. Further organizational change and separating the work from the people with the knowledge and working relations at this time is managerial malpractice and could only set the oversight and enforcement function back. Although these cases generate revenue through fines, the primary purpose of enforcement is about getting bad actors who have abused their public trust out of the profession, not to act as a profit center.

And yet we seem determined to unintentionally end up with the weakest enforcement effort of any state, coupled with a likely reduction in the assessment and collection of fines, which combined with the very real costs of turnover, I believe would end up costing the state more, not less money.

We don't resist change, but I believe change should bring improvement. It should be thoughtful, not the same old failed idea over and over. I don't believe this particular proposal meets even minimal standards required to initiate such precipitate change. Moving numbers and boxes on paper does not change the real world. Net – net will it save a dime? I doubt it. But this proposal would almost certainly result in negative unintended consequences. We will have sold our regulatory birthright and not even gotten a mess of pottage in return.

The board now has a staff with the skills it should have, the proactive management it should have - all efficiently at a cost of 10% of the revenues collected specifically to fund that regulatory function. It is working, and working well housed where it is with the staff in place - at a bargain price, ten times paid for by a dedicated revenue source.

I ask you, please don't let it be broken again.